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Bulletin

Constance Beard, Director

New Rental Purchase Agreement Occupation and Use Tax Act Enacted

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

For information or forms
Visit our website at:
tax.illinois.gov

Call us at:
1 800 732-8866 or
217 782-3336

Call our TDD
(telecommunications device
for the deaf) at:
1 800 544-5304

To: Businesses organized and operated for the purposes of renting merchandise under rental purchase (*i.e.*, “rent-to-own”) agreements and their customers

Effective January 1, 2018, P.A. 100-437 creates the Rental Purchase Agreement Occupation and Use Tax Act, 35 ILCS 180/1 *et seq.* Currently, persons engaged in the business of renting merchandise under rental purchase agreements typically pay Use Tax when they purchase their inventory, but then the rental receipts are not subject to tax in Illinois. This Act will allow merchants to purchase this merchandise exempt from Use Tax if the merchandise will be rented under a rental purchase agreement and will tax the rental receipts instead.

Who is subject to this tax?

You must pay the Rental Purchase Agreement Occupation Tax if, in the ordinary course of your business, you regularly lease, offer to lease, or arrange for the leasing of merchandise under a rental purchase agreement, an arrangement typically known as a “rent-to-own” transaction. You also must pay this tax if you have been assigned an interest in a rental purchase agreement.

What is a rental purchase agreement?

A “rental purchase agreement” is an agreement for the use of merchandise by a consumer for personal, family, or household purposes for an initial period of four months or less that is automatically renewable with each payment after the initial period and that permits the consumer to become the owner of the merchandise. These transactions are governed by the Rental-Purchase Agreement Act, 815 ILCS 655/0.01 *et seq.*

What receipts are subject to tax?

The Rental Purchase Agreement Occupation Tax is imposed on the gross receipts received on or after January 1, 2018, from the renting of tangible personal property under a rental purchase agreement. “Renting” is considered any transfer of the possession or right to possession of merchandise to a user for a valuable consideration under a rental purchase agreement. Gross receipts include the total rental price or leasing price but do not include receipts received for delivery, reinstatement, processing, waiver, or club program fees.

Note: Rental Purchase Agreement Occupation and Use Tax does not apply to items that must be titled or registered by an agency of the state of Illinois (*e.g.*, motor vehicles, watercraft, etc.).

What amounts are considered part of the rental price?

“Rental price” means the consideration for renting merchandise valued in money, whether received in money or otherwise, including cash, credits, property, and services. Rental price shall be determined without any deduction on account of the cost of the property rented, the cost of materials used, labor or service cost, or any other expense whatsoever.

Rental price does not include the following:

- charges added by a merchant on account of the merchant’s tax liability under the Rental Purchase Agreement Occupation and Use Tax Act or on account of the merchant’s duty to collect from the consumer the Rental Purchase Agreement Use Tax imposed by the Act;
- compensation paid to a merchant by a consumer in consideration of the merchant’s waiver of any right of action or claim against the consumer for loss or damage to the merchandise rented;
- separately stated charges for insurance; or
- other separately stated charges that are not for the use of tangible personal property, including charges for Chicago’s Personal Property Lease Transaction Tax.

Does the Rental Purchase Agreement Occupation Tax apply to existing contracts with customers that were entered into prior to January 1, 2018?

Yes. The Rental Purchase Agreement Occupation Tax is imposed on all gross receipts received on or after January 1, 2018, from the rental of merchandise under a rental purchase agreement. While the tax does not apply to any rental payments received before January 1, 2018, any rental payments made on or after January 1, 2018, are subject to the tax, including rental payments on contracts with current customers that were in place before January 1, 2018.

How do I pay the tax due?

You must submit Form ST-201, Rental Purchase Agreement Occupation Tax Return, to report and pay the Rental Purchase Agreement Occupation Tax. Illinois law requires Form ST-201 to be filed electronically, and the tax to be paid electronically. Use MyTax Illinois, available at mytax.illinois.gov, to file your Form ST-201 and pay any tax due.

To request a waiver of the electronic return filing and payment mandate, complete Form IL-900-EW, Electronic Waiver Request, which is available from the Department by request at 217 782-7897, 1 800 732-8866, or 217 782-3336. If granted and unless renewed, this waiver shall not exceed two years.

When is Form ST-201 due?

You must submit Form ST-201, along with your payment for any tax due, on or before the 20th day of the month following the end of your reporting period.

Note: If the due date falls on a weekend or holiday, your return and payment are due the next business day.

How do I register for the Rental Purchase Agreement Occupation Tax?

You can register for the Rental Purchase Agreement Occupation Tax with the Department electronically on mytax.illinois.gov:

- Taxpayers who already have a MyTax Illinois account can do this by simply logging in to MyTax Illinois, clicking on the link “Register for New Tax Accounts,” and selecting “Rental Purchase Agreement Tax.”
- Taxpayers who do not already have a MyTax Illinois account can set up MyTax Illinois access at mytax.illinois.gov. To create an account, click on the “Sign up Now” button and submit the requested information.
- To register a new business, click on the blue button that says “Registration” and complete the REG-1, Illinois Business Registration Application.

Contact our Central Registration Division at 217 785-3707 for information or assistance.

What if I have multiple sites?

If you have one business but rent merchandise at more than one location (site), you must combine the receipts from each particular location on Form ST-201.

If you have more than one business that rents merchandise, you must register each business separately to report and pay the Rental Purchase Agreement Occupation Tax.

Can I request a credit for merchandise on which I paid tax when I purchased it?

Yes. P.A. 100-437 allows taxpayers who are subject to the Rental Purchase Agreement Occupation Tax to claim a one-time credit for Use Tax paid on tangible personal property previously purchased for the purpose of renting to the business’s customers under rental purchase agreements. Taxpayers wanting to claim this credit must submit Form ST-206, Rental Purchase Agreement Occupation Tax One-Time Transitional Use Tax Credit Application Form. This form is available on our website at tax.illinois.gov and allows filers to claim credit for the Use Tax paid on merchandise that was purchased from July 1, 2017, through December 31, 2017, that is subject to the Rental Purchase Agreement Occupation Tax.

Filers of Form ST-206 may be required to provide copies of their receipts to support their Use Tax credit application. Form ST-206 must be submitted no later than April 2, 2018. Credit is allowed only for Illinois Use Tax and does not include any payment made to reimburse a supplier for its home rule, non-home rule, or other local retailer's occupation tax.

Do I owe Use Tax on merchandise I purchase prior to January 2018 that I will rent under a rental purchase agreement?

Yes. The exemption from Sales and Use tax for purchases of merchandise that is subject to the Rental Purchase Agreement Occupation Tax does not take effect until January 1, 2018. Purchases of merchandise before that date are not eligible for this exemption, but such purchases made from July 1, 2017, through December 31, 2017, would be eligible for the one-time credit for tax previously paid discussed above.

When the Rental Purchase Agreement Tax becomes effective, how do I make tax-exempt purchases of merchandise that I will rent under a rental purchase agreement?

On or after January 1, 2018, the purchaser must certify that the item is purchased to be rented subject to a rental purchase agreement, as defined in the Rental-Purchase Agreement Act, and provide proof of registration under the Rental Purchase Agreement Occupation and Use Tax Act. You may use Form ST-261, Exemption Certificate for Property Subject to Rental Purchase Agreement Tax, to claim an exemption from Sales and Use tax on purchases of merchandise that is subject to the Rental Purchase Agreement Occupation Tax. Form ST-261 is available on our website at tax.illinois.gov.

Do I owe tax if I rent merchandise under a rental purchase agreement from a rent-to-own business that does not collect the Rental Purchase Agreement Use Tax from me?

Yes. The Act provides that Rental Purchase Agreement Use Tax not paid to a merchant shall be paid to the Department directly by any person using the rented merchandise in Illinois.

You must submit Form ST-244, Rental Purchase Agreement Use Tax Return, to report and pay the Rental Purchase Agreement Use Tax. Illinois law requires Form ST-244 to be filed electronically, and the tax to be paid electronically. Use MyTax Illinois, available at mytax.illinois.gov, to file your Form ST-244 and pay any tax due.

Contact us at 217 782-7897 for information or assistance on filing Form ST-244.